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Page Denied

3 April 1986

MEMORANDUM FOR: Chief, Retirement Division

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FROM:

SUBJECT: Pending Senate Bills

1. Three bills which are currently pending in the Senate could have a significant impact on Agency employees, retirees, and on the Agency itself. The first to be discussed below is the most significant. The latter two deal with the 1987 COLA for retirees.

2. Senator Roth has proposed a bill (S.2197) which would establish optional early retirement for Federal employees from 1 July 1986 to 31 December 1986. During this period of time, the qualifications for civil service retirement would be:

a. any age - 25 years service
b. age 50 - 20 years service
c. age 55 - 15 years service
d. age 57 - 5 years service

Those retiring under age 55 would have to take a 2% reduction for each year under 55, whereas those age 55 and older would get full benefits.

3. Under the provisions of the Roth proposal, no agency could hire a replacement for a worker retiring between 1 July 1986 and 31 December 1986 until 1 October 1991, except that OPM could waive the hiring restriction for essential employees. I assume the hiring restriction would apply only for replacements for employees retiring under the temporary guidelines, but the wording in the Congressional Record is unclear -- the restriction might apply to replacements for all retirees during that period. A copy of the bill would be needed to resolve that question.

4. The Roth bill, if passed, would have a very large impact on the Agency's employees and the Agency itself. A large number of employees would suddenly be eligible to retire for the first time, and knowing that it would be a one-time opportunity, many would take advantage of it and retire. The Roth bill would be of benefit, therefore, to many employees. The Agency, on the other hand, would have a problem. If the provision restricting hiring applies to the Agency, many positions would be unfilled for years. If the Agency is not bound by the restriction, positions could be filled but it would take a lot of time to recruit, clear, and train enough new people to replace those leaving. If it looks like the bill is going to pass, the Agency should try to get authority to immediately start hiring replacements to make up for anticipated losses.

5. S.2190 was introduced by Senator Sarbanes. It states that full COLAs for benefits payable under certain programs will be made for 1987. Without the bill, Gramm-Rudman-Hollings would suspend all future COLAs for Federal annuitants from 1987-1991. S.2190 would guarantee the 1987 COLA for Federal retirees. This bill would clearly be beneficial to our retirees.

6. S.2198 was introduced by Senator Trible. It provides that full COLAs will be payable under certain programs in 1987, including those covering civilian, military, and postal retirees. The purpose is equity--to provide Federal retirees with the same income protection as Social Security recipients. This proposal is similar to S.2190 and would have the same beneficial effect for retirees.

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REMARKS

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8 May 1986
OCA 86-1553

NOTE FOR: DCI
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THROUGH: Dave Gries [redacted]

SUBJECT: S 2197 Senator Roth's Early Out Bill

S 2197 was discussed at your breakfast today for Senator Chafee.

Senator Roth introduced the bill on 4 March 1986. Briefly, it would provide a six month window from July to December 1986 when federal employees who meet the age and service requirements could retire early with a corresponding reduction in their annuity. CIA and the Foreign Service are specifically included in its coverage. The Senate Governmental Affairs staff indicated that there were second thoughts about the bill because it might create an unwanted brain drain. Within the last two weeks OPM has taken an interest in the bill and suggested major modifications. The first hearing is scheduled for 15 May when OPM Director Horner will testify.

The bill also imposes a hiring limitation or freeze. Our OGC and Personnel people are reviewing it to see how it will affect CIA. They have not reached a decision, but it is likely that we may seek an exemption or ask for modifications.

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OCA/Senate/[redacted]aw (8 May 86)

OCA 86-1103
2 April 1986

MEMORANDUM FOR THE RECORD

SUBJECT: S 2197 Senator Roth's "Early Out" Bill

1. David Mulgrew, Staffer on the Senate Governmental Affairs Subcommittee on Civil Service, Post Office and General Services related today the status and outlook for S 2197, Senator Roth's "early out" bill for federal employees.

2. He said that the bill has been referred to the full committee and that he was working closely with that staff on it. No hearings are currently scheduled on the bill although the Subcommittee may include it in hearings they have already scheduled on federal pay issues around 15 April. He added that the bill does include a ceiling in that the personnel level is reduced with each retirement. One option to this is that anyone who can retire under any other program can not be counted as reducing the ceiling under the early out bill. He said that his own view was that they may end up with a bill at a later date that might not be much different than the one that presently exists. Presumably agency heads such as the director could elect whether or not to implement it.

3. Mulgrew indicated that there were some second thoughts about the impact of the bill because it might open the flood gates and create a brain drain while some Members of Congress want to encourage federal workers to stay on the job by retaining the three year rule. When questioned about support for the three year rule in the Senate Mulgrew said that Finance Committee staffers were very close mouthed about it and he has not been able to learn from them how that committee will deal with that issue. He added that there were some steps under way "outside" the Finance Committee which he was not at liberty to discuss that might preserve the three year rule. He indicated that there would be something in the public domain on this soon. The undersigned thanked Mulgrew for his insights and assured him that we would stay in touch on this matter.

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OCA:RJK:aw (7 April 1986)

OCA 86-1103
2 April 1986

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OCA:RJK:aw (7 April 1986)

Office of the Director

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

May 2, 1986

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: CONSTANCE HORNER
DIRECTOR Constance Horner

SUBJECT: PERSONNEL REDUCTION POLICY

ISSUE: How can the Administration best take advantage of potential personnel cuts under Gramm-Rudman-Hollings to reduce the size of the Federal government permanently?

BACKGROUND: In 1984, we achieved our goal of reducing nondefense employment three months ahead of schedule. At the end of FY 84 the overall reduction was 78,100 workyears, exceeding the President's goal by over 4 percent. This was an important step in the Administration's efforts to reduce the size of government and to redirect resources to key functions of the Federal government (for example, national defense and law enforcement). And, the trend continues. Between 1985 and 1987, nondefense employment is expected to decrease by approximately 50,000. However, it should be noted that an increase in defense civilians has resulted in some increase in total civilian employment.

The political climate created by G-R-H may give us an opportunity to make faster progress than we had expected in reducing the Federal workforce.

In addition, we must establish an Administration position on a bill introduced by Senators Roth and Stevens (S.2197) to give Federal employees throughout the Government an opportunity to retire early.

DISCUSSION: In recent years, many private companies, when faced with the need to make large cuts in employment, have offered special early retirement opportunities to their employees. It has been reported that, in the last 5 years, 32 percent of private employers have taken this course, and another 9 percent are now considering it.

If we were to have a government-wide voluntary early retirement opportunity, CBO has estimated that 60,000 employees might retire. (200,000 employees would be eligible to retire early in addition to the 200,000 currently eligible to retire.) Such an early retirement opportunity could be designed to exclude critical occupations. Others, such as air traffic controllers and law enforcement officers, would be automatically excluded by the nature of their special retirement benefits.

The "early out" bill introduced by Roth and Stevens would provide a government-wide early retirement "window" from July through December of this year. In addition to the age and service categories normally covered by early retirement (age 50 with 20 years service and any age with 25 years) the bill would permit two additional groups to retire: those age 55 with 15 years of service and those age 57 with 5 years of service. (These new categories represent over 60,000 employees in the expanded pool of retirement eligibles.) Certain critical occupations, listed in the bill, would be excluded.

The Roth/Stevens bill would also impose a 5-year employment freeze on the Federal government, essentially limiting agency employment levels to the number working on July 1, 1986 reduced by the number who retire during the 6-month early retirement window. OPM would be permitted to waive the freeze on hiring for a position or class of positions that is essential to an agency's mission, or where the positions would be self-supporting due to user fees.

Current authorities could be used without early retirement legislation to reduce personnel in individual agencies in response to budget limits or sequestration. A government-wide hiring freeze could reduce total employees by taking advantage of the normal annual attrition of 8%. OPM and agencies could continue to work closely to authorize voluntary early retirements in agencies that are undergoing major RIFs. The new performance-based RIF regulations should ensure that RIFs are less disruptive than in the past, and that better performers are more likely to survive. Nevertheless, any major RIFs will have adverse consequences, causing individual hardship and political and management problems.

A more active approach could include an alternative to a government-wide retirement program in which the President would call on agency heads to restructure their agencies to reduce the number of employees and to streamline their operations to eliminate the middle management (GS 11-15) buldge. He could also direct that OPM temporarily loosen the criteria for approving early retirement authorities to facilitate these reductions in the most positive and humane manner. OPM could then lower the present requirement from 5 percent to 3 percent of the workforce which must face separation before granting early retirements. This would allow wider organizational application of this authority.

As a further alternative, the Administration could provide agencies with a more positive tool for effecting budget-driven personnel reductions by developing legislation which would allow OPM to appove targeted early retirement reductions without requiring prior announcement of a RIF.

OPTIONS: Several options are available.

OPTION #1: Support proposed government-wide early retirement legislation, with possible modifications.

Pros

- o Would provide the opportuntiy to make a significant reduction in employment levels in a way that is very popular with employees. (Based on CBO estimates, 60,000 early retirements can be expected with a corresponding FTE reduction if retirees are not replaced.)

- o Would generate more savings than RIFs due largely to the fact that higher-graded, higher-paid employees would retire as opposed to retaining pay and "bumping" lower-graded employees in a RIF action. (Over 5 years, early retirement saves $131,000 per employee versus $86,000 for RIF.)

- o Could be used as a management tool to reduce the number of high-graded employees and help to deal with the "buldge" problem.

- o Would increase the potential that outlay savings would actually be realized by legislating reduced employment ceilings.

- o Would add Administration support to a workforce reduction bill which has broad appeal among Federal employees and within the Congress. The Administration could also seize an opportunity to propose modifications, such as: a 3 vice 6 month "window", restricted eligibility to age 50 with 20 years or any age with 25 years of service, and broader authority for agencies to fence critical programs and occupations and to rehire for critical missions.

Cons

- o Would take away Administration control over where reductions would occur. Agencies whose mission continues at current or enhanced levels, such as DOD or NASA, could lose a significant number of employees. Replacements would be allowed only on an exception basis, threatening the ability of some agencies to function.

- o Would further exacerbate the potential problem of mass retirements if pending tax reform legislation passes with a provision eliminating the current Federal retiree tax break.

- Would require central agency involvement in agency business to grant exceptions to the hiring freeze.

- Could result in cost increases if agency demands to rehire replacements are not resisted.

- Would attach Presidential support to a bill susceptible to "Christmas-treeing".

- Could produce union opposition despite the popularity of this legislation among Federal workers.

OPTION #2: <u>Maintain the status quo and oppose government-wide early retirement proposals</u>.

<u>Pros</u>

- Would allow targeted reduction of specific programs and functions using current RIF and early retirement authority.

- Minimizes costs to the Civil Service Retirement Fund.

- Avoids contradicting our push for an older retirement age for all Federal employees.

- Would allow the Administration to impose a hiring freeze similar to that in the proposed legislation and take advantage of normal attrition to reduce the size of the workforce.

<u>Cons</u>

- Would miss an opportunity to make a significant reduction in employment levels.

- Would require planning and announcement of unpopular and demoralizing RIFs before early retirements could be authorized.

- Would lead to expensive RIFs and miss an opportunity for significant outlay savings.

- Would not create an environment leading to maximum possible reductions -- reductions are unlikely to exceed the 20,000 workyears called for in the budget.

- Could ultimately require a government-wide hiring freeze which penalizes critical programs with high turnover rates.

OPTION #3 <u>Oppose legislative proposals, and develop a more flexible Administration early retirement policy based on existing authorities</u>.

<u>Pros</u>

- Returns the initiative to the Administration and reduces the chance of unacceptable legislation.
- Allows agency heads to marginally expand, but yet control, areas which can be offered early retirement opportunities.
- Allows the Administration to proceed with a less risky workforce reduction policy to achieve the budgeted reduction of 20,000 FTEs for FY 87, without relying on pending legislation.
- Reduces the problem of hiring to replace retirees, since early retirements can be prevented in critical components.

<u>Cons</u>

- Would still require agencies to plan and announce RIFs before offering early retirements.
- Could be perceived as weakening the positive gesture of granting early retirements.
- Misses an opportunity to make greater reductions in employment levels than required to meet budget targets.
- Would be interpreted by Roth and Stevens as an attempt to steal the spotlight.

OPTION #4: <u>Develop Administration legislation authorizing targeted early retirement opportunities without the currently required RIF announcement</u>.

<u>Pros</u>

- Would permit agencies to request early retirement authority to attempt to reduce selected areas prior to announcing a RIF.
- Could include a short 2-month "window" to target employees wanting to retire. (This approach would be consistent with many private sector "early out" programs.)
- Would retain central agency control of expanded early retirements to ensure that specific actions are economically sound and consistent with other Administration initiatives.

- o Would provide experience with smaller-scale early retirement opportunities before initiating a government-wide approach.

Cons

- o May not have momentum necessary for legislative action in time to support budgeted personnel reductions.

- o May produce only limited reductions, necessitating unpopular and costly RIFs.

RECOMMENDATION: The Office of Personnel Management requests the sense of the Domestic Policy Council regarding the most appropriate option to pursue. OPM recommends Option #1, but only if the Council supports that option fully. Workforce reduction as a priority of the Council is a necessary precondition to realizing maximum reduction without incurring additional costs from hiring to fill slots vacated by early outs.